

Message Text

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ACTION EUR-12

INFO OCT-01 SS-15 L-03 H-01 PM-04 PRS-01 NSC-05
DODE-00 IGA-02 ISO-00 AGRE-00 AID-05 CEA-01
CIAE-00 COME-00 EB-08 FRB-03 INR-07 NSAE-00 SP-02
STR-04 TRSE-00 LAB-04 SIL-01 OMB-01 /080 W
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R 281633Z APR 77
FM US MISSION EC BRUSSELS
TO SECSTATE WASHDC 3637
INFO ALL EC CAPTIALS
AMEMBASSY BELGRADE

LIMITED OFFICIAL USE SECTION 1 OF 2 EC BRUSSELS 4285

PASS AGRICULTURE ELECTRONICALLY

E.O. 11652: N/A
TAGS: PFOR EEC YU
SUBJECT: EC-YUGOSLAV RELATIONS

REF: (A) EC BRUSSELS 4037, (B) EC BRUSSELS 3148

1. SUMMARY. REF A REPORTED THAT DURING APRIL 20 DISCUSSION WITH UNDER SECRETARY COOPER AND ASSISTANT SECRETARY HARTMAN, EC COMMISSIONER HAFERKAMP INDICATED THAT THE YUGOSLAVES HAD RECENTLY PROVIDED THE COMMISSION SPECIFIC SUGGESTIONS REGARDING THE EXPANSION OF EC-YUGOSLAV RELATIONS. THE COMMISSION LATER FURNISHED US A COPY OF THE YUGOSLAVE DOCUMENT IN QUESTION, WHICH WE SUMMARIZE IN THIS TELEGRAM. YUGOSLAVS ARE SEEKING A FRAMEWORK AGREEMENT FOR EXPANDED COOPERATION SIMILAR TO AGREEMENTS THE EC HAS RECENTLY CONCLUDED WITH OTHER COUNTRIES, E.G., CANADA. THE TRADE PORTION WOULD BE A NON-PREFERENTIAL AGREEMENT. THE YUGOSLAVES CALL FOR: VASTLY EXPANDED OPPORTUNITIES IN EC MARKETS FOR SUCH AGRICULTURAL PRODUCTS AS BABY BEEF
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AND TOBACCO; JOINT VENTURES IN THE INDUSTRIAL FIELD, INCLUDING EC-YUGOSLAV COOPERATION ON INFRASTRUCTURE PROJECTS IN THIRD COUNTRIES, AND GREATER ACCESS TO EUROPEAN CAPITAL MARKETS. END SUMMARY.

2. ON THE MARGINS OF THE US-EC CONSULTATION APRIL 21, FROSCHMAIER, HAFERKAMP'S CHEF DE CABINET, PASSED US A

COPY OF THE YUGOLSAVE RPOPOSALS REFERRED TO BY HAERKAMP AT DINNER THE NIGHT BEFORE. THE DOCUMENT IN QUESTION IS AN AMENDED AND EXPANDED VERSION OF JANKO SMOLE'S INTRODUCTORY PRESENTATION T THE MIXED YUGOSLAV-EC JOINT COMMITTEE MEETING IN BRUSSELS ON MARCH 29 (REF B) AND CARRIES ATHE LATTER DATE, ALTHOUGH WE UNDERSTAND FROM FROSCHMAIER THAT THE EXPANDED VERSION WAS ACTUALLY PREPARED BY THE YUGOLSAVES SUBSEQUENTLY TO THE JOINT COMMITTEE MEETING. WHILE STILL SOMEWHAT GENERAL IN TONE, IT APPEARS NONETHELESS TO CONTAIN MORE SPECIFICS ABOUT WHAT THE YUGOSLAVES THINK SHOULD BE IN AN EC-YUGOSLAVE ECONOMIC COOPERATION AGREEMENT THAN ANYTHING THE YUGOSLAVES HAD REPRESENTED HERETOFORE.

3. AS REGARDS GENERAL PRINCIPLES ON WHICH A NEW FRAMEWORK AGREEMENT SHOULD BE BASED, SMOLE SAID THAT: (A) THE EC SHOULD TREAT YUGOSLAVIA AS A DEVELOPING COUNTRY; (B) THE TRADE CHAPTER OF THE AGREEMENT SHOULD BE NON-PREFERENTIAL IN NATURE; (C) THE AGREEMENT SHOULD PROVIDE FOR LONG-TERM STABLE TRADE PATTERNS BETWEEN YUGOSLAVIA AND THE EC WHICH WOULD BRING A STEADY REDUCTION IN THE CURRENT IMBALANCE IN EC-YUGOSLAV TRADE; (D) THERE SHOULD BE DEVELOPED A VARIETY OF "FORMS OF COOPERATION OF HIGHER QUALITY" BETWEEN YUGOSLAVIA AND THE EC; (E) THERE SHOULD BE ESTABLISHED AN EFFICIENT AND FLEXIBLE CONSULTATIVE SYSTEM PROVIDING FOR A TWO-WAY EXCHANGE OF INFORMATION ON ECONOMIC AND TRADE MATTERS, WHICH MIGHT MINIMIZE THE POSSIBILITY OF UNILATERAL TRADE ACTIONS BY EITHER SIDE.

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4. BALANCE OF TRADE. SMOLE DWELT AT LENGTH ON THE CURRENT IMBALANCE IN EC-YUGOLSAV TRADE. HE PUT THE 1976 DEFICIT AT \$1.5 BILLION, WITH ABOUT TWO-THIRDS OF THAT BEING SPENT FOR PURCHASE OF EC MACHINERY AND EQUIPMENT. HE CALLED FOR A SERIOUS EC-YUGOSLAV DIALOGUE DESIGNED TO INCREASE THE VOLUME OF YUGOSLAV EXPORTS TO EC MARKETS.

5. AGRICULTURE. SMOLE SAID THAT IT IS PARTICULARLY IMPORTANT FOR YUGOSLAVIA TO BE ABLE TO EXPAND ITS AGRICULTURAL EXPORTS, AND NOTED THE "EXCEPTIONAL DIFFICULTIES" WHICH YUGOSLAVIA HAS FACED SINCE 1973 AS A RESULT OF THE COMMUNITY'S RESTRICTIVE MEASURES IN THE BEEF SECTOR, PARTICULARLY AS REGARDS BABY BEEF. STATING THAT YUGOSLAVIA HAS BEEN DISCOURAGED BY ITS DISCUSSION WITH THE EC TO DATE, HE CALLED FOR FURTHER, CONSTRUCTIVE TALKS AIMED AT EXPANDING BABY BEEF EXPORTS TO THE COMMUNITY. HE ALSO CLAIMED THAT YUGOSLAV

TOBACCO, PROCESSED FRUITS AND VEGETABLES, AND PORK HAVE BEEN DISADVANTAGED AS A RESULT OF THE COMMUNITY'S COMMON AGRICULTURAL POLICY. HE HOPED THE COMMUNITY WOULD GIVE SERIOUS CONSIDERATION TO PROPOSALS WHICH YUGOSLAVIA SUBMITTED PREVIOUS REGARDING EXPANSION OF EC IMPORTS OF THESE ITEMS, STATING THAT THERE HAD BEEN AGREEMENT IN PRICIPLE AT THE EC-YUGOSLAV IMINISTERIAL MEETING IN BLEGRADE LAST DECEMBER ON ENCOURAGING YUGOSLAV EXPORTS TO THE EC OF DEHYDRATED LIVESTOCK FODDER, SMOLE SAID THAT FOR YUGOSLAVIA TO DEVELOP THIS CROP, IT SHOULD AHVE A STABLE AND ASSURED EC MARKET AND THERE SHOULD BE INVESTMENT IN THE CROP BY INTER-ESTED EC PARTIES. (COMMENT. WE ASSUME THIS MEANS INVESTMENT IN DRYING PLANTS.) FINALLY, SMOLE'S REMARKS CALLED FOR JOINT INVESTMENTS AND JOINT RESEARCH IN AGRICULTURE, WELL AS JOINT EC-YUGOSLAV COOPERATION IN THIRD COUNTRY MARKETS FOR YUGSLAV AGRICULTURAL LIMITED OFFICIAL USE

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PRODUCTS.

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INFO OCT-01 ISO-00 SS-15 L-03 H-01 PM-04 PRS-01 NSC-05
DODE-00 IGA-02 AGRE-00 AID-05 CEA-01 CIAE-00
COME-00 EB-08 FRB-03 INR-07 NSAE-00 SP-02 STR-04
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TO SECSTATE WASHDC 3638
INFO ALL EC CAPTIALS
AMEMBASSY BELGRADE

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6. INDUSTRIAL COOPERATION. THE YUGOSLAVS ARE ASKING FOR JOINT RISK VENTURES WITH PARTICIPATION BY EC PARTNERS IN THE COST OF BOTH PRODUCTION AND MARKETING FOR A WIDE RANGE OF INDUSTRIAL PRODUCTS. SMOLE'S STATEMENT EXPRESSED PARTICULAR INTEREST IN OBTAINING WEST EUROPEAN ASSISTANCE IN EXPANDING YUGOSLAVIA'S MACHINE TOOL, ASIC CHEMISTRY, STEEL, AND NON-FERROUS METAL INDUSTRIES. THE STATEMENT ALSO SAID YUGOSLAVIA WOULD LIKE TO PARTICIPATE "IN THE COOPERATION OF PRODUCTION OF SPECIFIC NUCLEAR ENERGY EQUIPMENT" IN WHICH ITS INDUSTRY HAS ALREADY GAINED EXPERTISE THOROUGH MANUFACTURING CONTRACTS WITH OTHER COUNTRIES. BELGRADE HAS ALSO CALLED FOR EC-YUGOSLAV COOPERATION IN INFRASTRUCTURE PROJECTS IN THIRD COUNTRIES, STATING THAT YUGOSLAVIA COULD EXPORT EQUIPMENT AS WELL AS WORKERS TO SUCH PROJECTS ASHYDROELCTRICAL AND THERMAL POWER PLANTS, AND CONSTRUCTION OF ROADS, AIRPORTS, IRRIGATION SYSTEMS, PORTS, AND RAILROADS.

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7. WHILE NOTING APPRECIATION FOR FINANCIAL CREDITS WHICH THE COMMUNITY IS PREPARED TO MAKE AVAILABLE TO YUGOSLAVIA THOROUGH THE EUOPEAN INVESTMENT BANK, SMOLE SAID IT IS "INDISPENSABLE" THAT THERE BE MUCH BROADER FINANCIAL COOPERATION BETWEEN THE EC AND YUGOSLAVIA, WHICH WOULD "PROVIDE BETTER ACCESS OF YUGOSLAV ECONOMIC OPERATORS TO THE EUOPEAN CAPTIAL MARKET."

8. SMOLE'S REMARKS ALSOCALLED FOR EXPANDED COOPERATION IN THE FIELDS OF ROAD AND RAIL TRANSPORT, TOURISM, AND SCIENCE AND TECHNOLOGY, ALTHOUGH ONLY SCANTY DETAILS ARE PROVIDED OF YUGOSLAV THINKING IN THESE LATTER CONTEXTS.

9. THE FULL TEXT OF THE YUGOSLAV DOCUMENT IS BEING SENT BY AIRGRAM TO EUR/RPE AND EMBASSY BELGRADE.

10. DCM AT YUGOSLAV MISSION TO THE EC TOLD DCM APRIL 27 THAT HIS GOVERNMENT BELIEVES ITS MAJOR GAIN AT THE MARCH 29 JOINT COMMITTEE MEETING REFERRED TO IN PARA 2 ABOVE, WAS OBTAINING THE COMMISSION'S COMMITMENT TO ACTUALLY PROCEED IN THE MONTHS AHEAD TO NEGOTIATE A NEW FRAMEWORK AGREEMENT FOR ECONOMIC COOPERATION. THE YUGOSLAV MISSION HERE IS URGING SMOLE TO BISIT THE EC COMMISSIIION AGAIN PRIOR TO ITS AUGUST VACATION TO KEEP THE YUGOLSAV DOSSIER ALIVE AND BEFORE THE COMMISSION.HINTON

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